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Cairo Minister 'Dismayed' by Arms Stories

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In the first official comment on recent published reports on the transport of billions of dollars worth of U.S. military equipment to Egypt, Kamal Hassan Ali, Egypt's foreign minister, said yesterday that Egyptian officials engaged in no wrongdoing.

Describing himself as "deeply dismayed by what has been reported in the press about Egyptian officials, including myself," Ali, in a formal statement issued by the Egyptian Embassy here, challenged "any person or party to bring forward any documents that would prove any of these malicious lies."

Ali said that about a year ago, "the Egyptian government carried out a thorough investigation that proved that no wrongdoing or improper action was committed by any Egyptian official or authority," he said.

The U.S. Justice Department is investigating the use of \$51 million in U.S. funds paid to the Egyptian American Transportation Service Co. (EATSCo) of Falls Church to transport more than \$3 billion in military equipment that the United States agreed to sell Egypt after the signing of the 1979 peace treaty between Egypt and Israel.

Investigators are focusing on \$30 million in bills submitted by the firm as fees owed to a middleman company that arranged for the ships to carry the equipment overseas. These fees as well as other transportation costs were paid from grants and loans provided by the United States to Egypt for arms purchases.

Prosecutors are trying to determine whether the use of the middleman served to inflate the bills submitted to Egypt by EATSCo and if so, who profited.

A source close to EATSCo has said some of the money listed on bills as due the middleman actually went to EATSCo. Egyptian officials were aware of this, the source said, and did not object to it, and therefore the firm's procedures were proper.

Sources close to the investigation have said that federal prosecutors have no allegations against Egyptian officials. They are, however, attempting to ascertain how EATSCo, which had no previous shipping experience, secured a lucrative and exclusive contract to handle all U.S. arms shipments to Egypt.

The firm was founded in 1979 by Hussein K. Salem, who U.S. intelligence sources say is a former Egyptian military intelligence official and close associate of Hassan Ali, and by Thomas S. Clines, a former CIA official. Salem has previously denied ever being an intelligence official.

Ali's statement noted that "Pentagon officials have confirmed that the firm's charges average less than those allowed in its contract."

The Pentagon has withheld public comment on the case and has refused reporters' requests to look at public records showing the rate at which items were shipped by EATSCo.

In his statement, Ali said he has started "legal proceedings against all those who tried without any foundation to cast doubts on my name and the names of other Egyptian officials."